

# **PACE FUND**

**FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

## **PACE FUND**

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities of the PACE Fund, a department of the State of North Dakota, as of June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the PACE Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the PACE Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

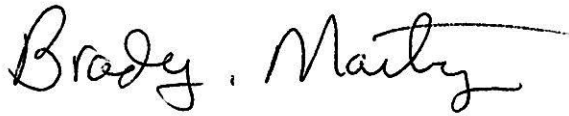
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PACE Fund as of June 30, 2011 and 2010, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the PACE Fund adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, on our consideration of the PACE Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The combining financial statements on pages 14 through 17 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 29, 2011

**PACE FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011 AND 2010**

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The management's discussion and analysis of the PACE Fund's financial performance provides an overview of the PACE Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the financial statements of the PACE Fund.

**FINANCIAL HIGHLIGHTS:**

The purpose of the PACE (Partnership in Assisting Community Expansion) Fund is to assist North Dakota communities in expanding their economic base. The program is available to all cities and counties throughout North Dakota for qualified projects. These loans are made by a lead financial institution in participation with Bank of North Dakota.

The 2009 Legislature approved the following appropriations and transfers from the above identified PACE programs during the biennium July 1, 2009 through June 30, 2011:

PACE	\$8,000,000	Legislative Appropriation
	2,870,652	Carry Forward from Previous Allocation
	46,315	Carry Forward from 2005/2007 Biennium Loans Withdrawn
	(9,130,000)	Transfer to Flex PACE
	400,000	Transfer from Ag PACE
	<u>1,313,214</u>	Adjustments on Defaulted or Prepaid PACE Loans
	\$3,500,181	
Flex	\$3,000,000	Legislative Appropriation – Transfer from PACE
	446,112	Carry Forward from Previous Allocation
	119,417	Carry Forward from Pending Commitments that Expired
	6,130,000	Transfer from PACE
	<u>83,258</u>	Adjustments on Defaulted or Prepaid Flex PACE Loans
	\$9,778,787	
Biofuels	\$ 700,000	Legislative Appropriation
	1,687,960	Carry Forward from Previous Allocation
	<u>25,501</u>	Adjustments on Defaulted or Prepaid Biofuels Loans
	\$2,413,461	

Initially, \$3 million of the \$8 million PACE appropriation has been earmarked for Flex PACE for the 2009-2011 biennium. However, because of increased demand for Flex PACE loans, additional transfers were made from Pace to Flex Pace throughout the year (\$3,000,000 in August 2010, \$2,000,000 in March, 2011, and \$1,130,000 in June 2011). \$400,000 was transferred from Ag Pace to Pace in June 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The following is a recap of the PACE Fund activity for fiscal years ended June 30, 2009, 2010 and 2011:

	PACE	FlexPACE	BioFuels PACE
Current number of loans	228	97	29
Total outstanding principal	\$ 45,114,538	\$ 19,559,795	\$ 5,542,263
Current remaining buydown to be paid by Fund	\$ -	\$ -	\$ -
Loans funded in year ended June 30, 2009	21	24	11
Original loan amount funded	\$ 14,488,965	\$ 9,094,960	\$ 2,664,899
Buydown	\$ 2,087,779	\$ 1,308,712	\$ 847,930
Buydown not disbursed	\$ 177,807	\$ 144,286	\$ -
Loans funded in year ended June 30, 2010	11	47	9
Original loan amount funded	\$ 7,173,466	\$ 20,962,256	\$ 5,132,700
Buydown	\$ 1,119,972	\$ 2,805,923	\$ 1,051,954
Buydown not disbursed	\$ 46,315	\$ 50,526	\$ -
Loans funded in year ended June 30, 2011	14	62	6
Original loan amount funded	\$ 10,794,621	\$ 31,858,518	\$ 1,737,500
Buydown	\$ 1,303,692	\$ 3,587,956	\$ 645,467
Buydown not disbursed	\$ 315,413	\$ 735,989	\$ -
Loans pending as of June 30, 2011	4	28	2
Loan commitments outstanding	\$ 6,340,000	\$ 22,813,176	\$ 192,000
Buydown	\$ 871,163	\$ 2,937,037	\$ 20,000
Available buydown as of June 30, 2011	\$ 2,558	\$ 170	\$ 1,186,530

### REQUIRED FINANCIAL STATEMENTS:

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. The basic financial statements include the balance sheet and the statement of revenues, expenditures and changes in fund balances. The balance sheet provides readers the assets and liabilities of the PACE Fund, with the differences between the two reported as fund balances. The statement of revenues, expenditures and changes in fund balances identifies the operating performances of the PACE Fund for the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED****CONDENSED BALANCE SHEETS  
JUNE 30, 2011, 2010 AND 2009**

	(In Thousands)		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Cash deposits	<u>\$ 21,812</u>	<u>\$ 24,806</u>	<u>\$ 20,270</u>
<b>LIABILITIES</b>			
Accrued interest payable	\$ 305	\$ 291	\$ 290
Due to other state agencies	<u>-</u>	<u>-</u>	<u>970</u>
Total liabilities	<u>305</u>	<u>291</u>	<u>1,260</u>
<b>FUND BALANCE</b>	<u>21,507</u>	<u>24,515</u>	<u>19,010</u>
Total liabilities and fund balance	<u>\$ 21,812</u>	<u>\$ 24,806</u>	<u>\$ 20,270</u>

*Fund Balance*

The Fund Balance represents funds available to the PACE program. Fund balance decreased by \$3,008 or a 12.3% decrease from 2010 to 2011. The Fund balance increased by \$5,505 or a 29% increase from 2009 to 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### CONDENSED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 2011, 2010 AND 2009

	(In Thousands)		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES - Interest income	\$ 261	\$ 294	\$ 343
EXPENDITURES - Buydown interest	<u>3,669</u>	<u>3,490</u>	<u>3,500</u>
EXPENDITURES OVER REVENUES	(3,408)	(3,195)	(3,157)
OPERATING TRANSFER IN / OUT	<u>400</u>	<u>8,700</u>	<u>(970)</u>
NET CHANGE IN FUND BALANCE	(3,008)	5,505	(4,127)
FUND BALANCE, BEGINNING OF YEAR	<u>24,515</u>	<u>19,010</u>	<u>23,137</u>
FUND BALANCE, END OF YEAR	<u>\$ 21,507</u>	<u>\$ 24,515</u>	<u>\$ 19,010</u>

#### *Expenses*

Buydown interest expense is the Fund's share of the periodic payments made to the trustee to cover the interest rate buydown.

#### *Operating Transfers In/Out*

During the year ended June 30, 2010, the legislature appropriated \$8,000,000 to PACE and \$700,000 to BioFuels PACE for the 2009 – 2011 Biennium.

During the year ended June 30, 2011, the PACE Loan Program transferred \$6,130,000 to the Flex PACE Program. The Ag PACE Loan Program transferred \$400,000 to the PACE Program.

During the year ended June 30, 2010, the PACE Loan Program transferred \$3,000,000 to the Flex PACE Program.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

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### **CONTACTING THE FUND'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the PACE Fund's finances and to demonstrate the PACE Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

**PACE FUND**  
**BALANCE SHEETS**  
**JUNE 30, 2011 AND 2010**

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	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash deposits at the Bank of North Dakota	<u><u>\$ 21,811,839</u></u>	<u><u>\$ 24,805,539</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accrued interest payable	<u><u>\$ 304,561</u></u>	<u><u>\$ 290,764</u></u>
Total liabilities	<u><u>304,561</u></u>	<u><u>290,764</u></u>
<b>FUND BALANCE</b>		
Committed	<u><u>21,507,278</u></u>	<u><u>24,514,775</u></u>
Total liabilities and fund balance	<u><u>\$ 21,811,839</u></u>	<u><u>\$ 24,805,539</u></u>

**PACE FUND****STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEARS ENDED JUNE 30, 2011 AND 2010**

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	<u>2011</u>	<u>2010</u>
REVENUES		
Interest income	\$ 261,027	\$ 294,299
EXPENDITURES		
Buydown interest	<u>3,668,524</u>	<u>3,489,656</u>
EXPENDITURES OVER REVENUES	(3,407,497)	(3,195,357)
OTHER FINANCING SOURCES		
Operating transfer in	<u>400,000</u>	<u>8,700,000</u>
NET CHANGE IN FUND BALANCE	(3,007,497)	5,504,643
FUND BALANCE, BEGINNING OF YEAR	<u>24,514,775</u>	<u>19,010,132</u>
FUND BALANCE, END OF YEAR	<u>\$ 21,507,278</u>	<u>\$ 24,514,775</u>

**PACE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 6-09.14 of the North Dakota Century Code (NDCC) established the Partnership in Assisting Community Expansion (PACE) Fund. The fund is revolving and all moneys transferred into the fund, interest on fund moneys and payments to the fund are appropriated for the purposes of the fund. The Bank of North Dakota supervises and administers the PACE Fund. The purpose of the PACE Fund is to buydown the interest rate on loans made by a lead financial institution in participation with the Bank of North Dakota. The Bank of North Dakota's participation may not exceed 80% nor be less than 50% of the total loans. If the lenders approve the loan and there is evidence of the community's commitment and ability to fund its portion of the buydown, the fund's participation in the buydown is approved as part of BND's loan approval process.

The PACE programs recognize two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The interest differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, the community (if required) and the Bank of North Dakota on behalf of the PACE Fund. The PACE fund provides buydown dollars, to the extent available, to reduce the borrower's interest rate by a maximum of 5% and may not be less than 1%.

*PACE Program*

Loans eligible for the buydown are loans to new or expanding North Dakota businesses using the proceeds to purchase real property or equipment, expand their facility, or fund permanent working assets. The loan funds cannot be used to refinance any existing debt or for the relocation of business within North Dakota. The community shall determine the amount of the interest rate buydown and apply to the Bank of North Dakota for participation from the PACE Fund. The funds for the community's portion of the buydown may come from local development corporation contributions, community funds, future dedicated tax programs, or any other community source. The maximum amount from the fund in the interest rate buydown may not exceed \$300,000 per borrower in any biennium. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

*Flex PACE Program*

Flex PACE was designed to provide interest buydown to non-PACE qualifying businesses in which the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The communities within the state are given a percentage factor to determine the PACE Fund's maximum participation in the interest rate reduction. The maximum buydown amount was increased from \$150,000 per borrower in any biennium to \$200,000 on July 29, 2009. These funds are on deposit with BND's Trust Department which has been appointed to act as agent for the interest rate reduction fund.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

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### *Biofuels PACE Program*

Biofuels is established in N.D.C.C 17-03 to provide interest buy-down to qualified North Dakota businesses which are defined as biodiesel and ethanol production facilities, and livestock operations. The maximum interest buy-down per borrower for each eligible use is \$500,000 for a biodiesel or ethanol project, and \$250,000 for a livestock operation. The Biofuels PACE Loan Program does not require a community interest buy down match or job creation. Recipients of Biofuels PACE are not eligible for regular PACE or Flex PACE funds.

The 2009 North Dakota Legislature passed Senate Bill 2291 which expands the Biofuels program to include biodigester systems.

### *Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the PACE Fund should include all component units over which the PACE Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PACE Fund.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The PACE Fund is included as part of the primary government of the State of North Dakota's (State) reporting entity.

### *Accounting Standards and Adoptions of Accounting Policies*

The PACE Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities.

### *Fund Accounting*

The PACE Fund is a special revenue fund and uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined. Available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State has defined available as being collected within one year.

### *Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Special revenue funds are accounted for using current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

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### *Fund Balance Classification*

Governmental funds classify fund balance based on the constraints imposed on the uses of these resources. The spendable portion of the fund balance consists of committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the North Dakota State Legislature – the government's highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

### *Implementation of New Accounting Principle*

The PACE Fund implemented GASB Statement No. 54, *Fund Balance Reporting and Fund Type Definitions* during the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they chose to report in those funds. Definitions of other governmental fund types also have been modified for clarity and consistency.

### *Reclassifications*

Certain balances in the 2010 financial statements were reclassified for comparative purposes to conform to the presentation of the 2011 financial statements, which implemented GASB Statement No. 54, *Fund Balance Reporting and Fund Type Definitions*. \$15,652,528 of fund balance reserved for interest buydown commitments and \$8,862,247 of fund balance designated for future interest buydown commitments were both reclassified to committed fund balance. These reclassifications had no effect on the change in fund balance.

## **NOTE 2 - DEPOSITS**

The carrying value and bank balance of the PACE Fund's cash deposits at June 30, 2011 and 2010, was \$21,811,839 and \$24,805,539, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

### *Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

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### NOTE 3 - INTERFUND TRANSACTIONS AND SUBSEQUENT EVENTS

During the year ended June 30, 2011, the PACE Loan Program transferred \$6,130,000 to the Flex PACE Program (\$3,000,000 in August 2010, \$2,000,000 in March, 2011, and \$1,130,000 in June 2011). In June 2011, the Ag PACE Program transferred \$400,000 to the PACE Loan Program.

During the year ended June 30, 2010, the PACE Loan Program transferred \$3,000,000 to the Flex PACE Program.

The PACE Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The Bank of North Dakota pays interest to the PACE Fund on monies that have been disbursed to the funding agency. In lieu of an administrative fee, the Bank of North Dakota does not pay interest to the PACE Fund on the cash accounts held at the Bank of North Dakota that have not been disbursed to the funding agency. Interest buydowns amortized into interest expense totaled \$3,668,524 and \$3,489,656 for the years ended June 30, 2011 and 2010, respectively.

The 2009 North Dakota Legislature passed Senate Bill 2014 that provides an appropriation of \$8,000,000 from the North Dakota General Fund to the PACE Fund and a one-time appropriation of \$700,000 for the Biofuels PACE Fund during the biennium beginning July 1, 2009 and ending June 30, 2011. Senate Bill 2014 also allows Bank of North Dakota to transfer funds available in the PACE and Biofuels PACE programs to the Ag PACE program for providing additional funds for the disaster program, for the biennium beginning July 1, 2009, and ending June 30, 2011.

### NOTE 4 - RISK MANAGEMENT

The PACE Fund is exposed to various risks of loss related to torts and errors and omissions. The PACE Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

# **PACE FUND**

**PACE FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2011**

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	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash deposits at the Bank of North Dakota	<u>\$ 7,888,749</u>	<u>\$ 10,323,584</u>	<u>\$ 3,599,506</u>	<u>\$ 21,811,839</u>
Total assets	<u><u>\$ 7,888,749</u></u>	<u><u>\$ 10,323,584</u></u>	<u><u>\$ 3,599,506</u></u>	<u><u>\$ 21,811,839</u></u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>CURRENT LIABILITIES</b>				
Accrued interest payable	<u>\$ 152,350</u>	<u>\$ 110,402</u>	<u>\$ 41,809</u>	<u>\$ 304,561</u>
Total liabilities	<u>152,350</u>	<u>110,402</u>	<u>41,809</u>	<u>304,561</u>
<b>FUND BALANCE</b>				
Committed	<u>7,736,399</u>	<u>10,213,182</u>	<u>3,557,697</u>	<u>21,507,278</u>
Total liabilities and fund balance	<u><u>\$ 7,888,749</u></u>	<u><u>\$ 10,323,584</u></u>	<u><u>\$ 3,599,506</u></u>	<u><u>\$ 21,811,839</u></u>

**PACE FUND**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2010**

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	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash deposits at the Bank of North Dakota	<u>\$ 15,264,130</u>	<u>\$ 5,440,200</u>	<u>\$ 4,101,209</u>	<u>\$ 24,805,539</u>
Total assets	<u><u>\$ 15,264,130</u></u>	<u><u>\$ 5,440,200</u></u>	<u><u>\$ 4,101,209</u></u>	<u><u>\$ 24,805,539</u></u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>CURRENT LIABILITIES</b>				
Accrued interest payable	<u>\$ 192,980</u>	<u>\$ 66,062</u>	<u>\$ 31,722</u>	<u>\$ 290,764</u>
Total liabilities	<u>192,980</u>	<u>66,062</u>	<u>31,722</u>	<u>290,764</u>
<b>FUND BALANCE</b>				
Committed	<u>15,071,150</u>	<u>5,374,138</u>	<u>4,069,487</u>	<u>24,514,775</u>
Total liabilities and fund balance	<u><u>\$ 15,264,130</u></u>	<u><u>\$ 5,440,200</u></u>	<u><u>\$ 4,101,209</u></u>	<u><u>\$ 24,805,539</u></u>

**PACE FUND****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2011**

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	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Interest income	\$ 182,822	\$ 78,205	\$ -	\$ -	\$ 261,027
EXPENDITURES					
Buydown interest	<u>1,787,573</u>	<u>1,369,161</u>	<u>511,790</u>	<u>-</u>	<u>3,668,524</u>
EXPENDITURES OVER REVENUES	(1,604,751)	(1,290,956)	(511,790)	-	(3,407,497)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	400,000	6,130,000	-	(6,130,000)	400,000
Operating transfer out	<u>(6,130,000)</u>	<u>-</u>	<u>-</u>	<u>6,130,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(7,334,751)	4,839,044	(511,790)	-	(3,007,497)
FUND BALANCE, BEGINNING OF YEAR	<u>15,071,150</u>	<u>5,374,138</u>	<u>4,069,487</u>	<u>-</u>	<u>24,514,775</u>
FUND BALANCE, END OF YEAR	<u>\$ 7,736,399</u>	<u>\$ 10,213,182</u>	<u>\$ 3,557,697</u>	<u>\$ -</u>	<u>\$ 21,507,278</u>

**PACE FUND****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2010**

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	<u>PACE</u>	<u>Flex PACE</u>	<u>BioFuels PACE</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES					
Interest income	\$ 242,327	\$ 51,972	\$ -	\$ -	\$ 294,299
EXPENDITURES					
Buydown interest	<u>2,294,362</u>	<u>805,784</u>	<u>389,510</u>	<u>-</u>	<u>3,489,656</u>
EXPENDITURES OVER REVENUES	(2,052,035)	(753,812)	(389,510)	-	(3,195,357)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	8,000,000	3,000,000	700,000	(3,000,000)	8,700,000
Operating transfer out	<u>(3,000,000)</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	2,947,965	2,246,188	310,490	-	5,504,643
FUND BALANCE, BEGINNING OF YEAR	<u>12,123,185</u>	<u>3,127,950</u>	<u>3,758,997</u>	<u>-</u>	<u>19,010,132</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 15,071,150</u></u>	<u><u>\$ 5,374,138</u></u>	<u><u>\$ 4,069,487</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,514,775</u></u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the governmental activities of the PACE Fund, as of and for the year ended June 30, 2011, which collectively comprise the PACE Fund's basic financial statements and have issued our report thereon dated August 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PACE Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PACE Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PACE Fund's internal control over financial reporting.

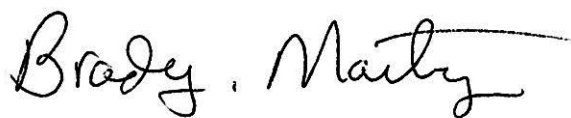
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PACE Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management of the PACE Fund and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 29, 2011



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**PACE FUND  
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE  
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE  
YEAR ENDED JUNE 30, 2011**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

**Audit Report Communications:**

**1. What type of opinion was issued on the financial statements?**

*An unqualified opinion was issued on the 2011 financial statements.*

**2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?**

*Yes - A review was made of Chapters 6-09.14, 17-03 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.*

**3. Was internal control adequate and functioning effectively?**

*Yes*

**4. Were there any indications of lack of efficiency in financial operations and management of the agency?**

*No*

**5. Has action been taken on findings and recommendations included in prior year audit reports?**

*There were no prior year findings.*

**6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

*No*

**Audit Committee Communications:**

- 1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

*As described in Note 1 to the financial statements, the PACE Fund changed accounting policies related to fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, Fund Balance Reporting and Fund Type Definitions, in 2011. Accordingly, the June 30, 2010 have been restated to also reflect the implementation of this new standard.*

- 2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

*None.*

- 3. Identify any significant audit adjustments.**

*None.*

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

*None.*

- 5. Identify any serious difficulties encountered in performing the audit.**

*None.*

- 6. Identify any major issues discussed with management prior to retention.**

*None.*

- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

*None.*

- 8. Identify any high-risk technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six report questions to be addressed by auditors are directly related to the operations of an information technology system.**

*Based on the audit procedures performed, the PACE Fund's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.*

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

*Brady, Martz*

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 29, 2011

**INDEPENDENT AUDITOR'S COMMUNICATION  
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

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To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the PACE Fund for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in January of 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the PACE Fund are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the PACE Fund changed accounting policies related to fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Fund Type Definitions*, in 2011. Accordingly, the June 30, 2010 have been restated to also reflect the implementation of this new standard. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 29, 2011.

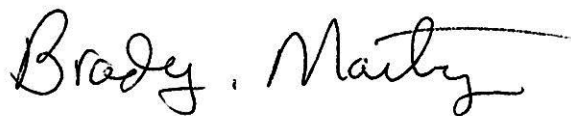
*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This letter is intended solely for the information and use of the North Dakota Industrial Commission and management of the PACE Fund, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 29, 2011